

Auditor-General of South Africa

Jozini Municipality - Audit report  
2014-15

# **Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the Council on Jozini Municipality**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of the Jozini Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## **Basis for qualified opinion**

### **Unspent conditional grants**

6. I was unable to obtain sufficient appropriate audit evidence regarding the opening balance of the unspent conditional grants, due to the status of the accounting records. I was unable to confirm the grant liability by alternative means. Consequently, I was unable to determine whether any adjustment to the unspent conditional grant liability stated at R8,33 million (2014: R7,44 million) and the related accumulated surplus at R258,61 million in the financial statements was necessary.

### **Qualified opinion**

7. In my opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Jozini Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

### **Emphasis of matter**

8. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Restatement of corresponding figures**

9. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered during 30 June 2015 in the financial statements of the municipality at, and for the year ended, 30 June 2014.

## **Report on other legal and regulatory requirements**

10. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### **Predetermined objectives**

11. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for improved service delivery and infrastructure investment and sustainable economic development presented in the annual performance report of the municipality for the year ended 30 June 2015.
12. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

13. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
14. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

15. The material findings in respect of the selected development priorities are as follows:

Improved service delivery and infrastructure investment

Usefulness of reported performance information

Measurability of indicators and targets

Performance targets not time-bound and indicators not well-defined and verifiable

16. The period or deadline for delivery of targets should be specified as required by the FMPPI. A total of 86% of the targets were not time-bound, this was due to a lack of proper systems and processes.

17. Performance indicators should be well-defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 50% of the indicators were not well-defined, this was due to a lack of proper systems and processes.

Sustainable economic development

Usefulness of reported performance information

Measurability of indicators and targets

Performance targets not time-bound and indicators not well-defined and verifiable

18. The period or deadline for delivery of targets should be specified as required by the FMPPI. A total of 92% of the targets were not time-bound, this was due to a lack of proper systems and processes.

19. Performance indicators should be well-defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 33% of the indicators were not well-defined, this was due to a lack of proper systems and processes.

## Improved service delivery and infrastructure investment and Sustainable economic development

### Reliability of reported performance information

20. The FMPPI requires municipalities to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to limitations placed on the scope of our work due to the fact that the municipality could not provide sufficient appropriate evidence in support of the reported performance information.

### **Additional matter**

21. I draw attention to the following matter:

### Achievement of planned targets

22. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priorities reported in paragraphs 16 to 20 of this report.

### **Compliance with legislation**

23. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### Strategic planning and performance management

24. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance measurement, review and reporting and how it is conducted, organised and managed, as required by sections 38 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) and regulation 7 of the Municipal planning and performance management regulations.

### Annual financial statements

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets and disclosure identified by the auditors in the submitted financial statements were subsequently corrected, but the supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

## Audit committee

26. The audit committee did not advise the council on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2) (a) of the MFMA.
27. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2) (a) (iv) of the MFMA.
28. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2) (a) (vii) of the MFMA.
29. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2) (c) of the MFMA.
30. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal planning and performance management regulation 14(4) (a) (iii).

## Procurement and contract management

31. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
32. Quotations were awarded to a provider that is listed on the National Treasury's database as persons prohibited from doing business with the public sector, in contravention of SCM regulation 38(1) (c).

## Expenditure management

33. Reasonable steps were not taken to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1) (d) of the MFMA.

## Conditional grants

34. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant, the Municipal Systems Improvement Grant, and the Local Government Financial Management Grant allocations, as required by section 12(5) of the DoRA.

## **Internal control**

35. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

## Leadership

36. Leadership did not implement effective oversight over the review of the financial statements and performance reports and did not ensure that management effectively and timeously monitored compliance with laws and regulations throughout the financial year. Additionally, the vacant positions and skills shortages have not been adequately responded to, resulting in minimal improvement in the areas of compliance and performance information.

## Financial and performance management

37. Systems and controls were not designed in a manner to prevent, detect and address risks that impact on financial, performance and compliance reporting due to management not timeously addressing the vacancies and skills shortages identified. In this regard, senior management did not ensure regular, accurate and complete financial reports were prepared and supported by reliable information. This resulted in material corrections to the financial statements, non-submission of information to support the annual performance report and repeat compliance findings.

## Governance

38. The municipality did not have an effective audit committee throughout the year and did not implement the previous recommendations, resulting in the misstatement risks not being identified and mitigated.

## Other reports

## Investigations

39. Internal investigations were initiated by the municipality relating to misconduct, fraud and corruption in the prior and current year. The investigations are still in progress at the date of this report.

*Auditor-General*

Pietermaritzburg

29 November 2015



*Auditing to build public confidence*

